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Three times in the 1990s, Congress enacted measures to bear down on the deficit beginning with the Budget Summit in 1990, and then the Clinton budget in 1993, and finally the Balanced Budget Act of 1997. And each year, for eight straight years from 1993 through 2000, we reaped the results. Each year, the bottom line of the budget got better.

The prospects peaked last year when CBO and OMB projected current policies out ten years and saw unified surpluses that totaled \$5.6 trillion.

Democrats knew these were blue sky forecasts, and we warned against betting the budget on them. We urged that a third of the on-budget surplus be set aside for Social Security, and until we had settled on a plan for saving Social Security, that it be held in reserve, in case these rosy projections didn't pan out.

Democrats proposed tax cuts, but we also proposed more for education, more for prescription drugs under Medicare, and more for debt reduction.

*From fiscal improvement to fiscal reversal*

<i>Fiscal year</i>	<i>Surplus / deficit</i>
1992 .....	-\$290.4
1993 .....	-255.1
1994 .....	-203.3
1995 .....	-164.0
1996 .....	-107.5
1997 .....	-22.0
1998 .....	+69.2
1999 .....	+125.5
2000 .....	+236.4
2001 .....	+127.1
2002 .....	-46.0

President Bush proposed much larger tax cuts, \$1.7 trillion to start with; these became the driving force in the Republican budget resolution. We pointed out that the impact on the budget, when debt service was included, would come to more than \$2 trillion, out of a non-Social Security budget surplus of only \$2.6 trillion. We pointed to clouds gathering over the economy, and warned that if CBO were off by just 10 percent, the budget would be back in the red, and back into the Social Security surplus.

Here is what the President said in reply:

Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens. Projections for

the surplus in my budget are cautious and conservative. They already assume an economic slowdown in the year 2001.—President Bush, Western Michigan University, March 27, 2001

Democrats thought that both political parties had drawn one bright line in the budget, and made the Social Security surpluses inviolate. In fact, these are the promises made by the President and Congressional Republicans:

None of the Social Security trust funds and Medicare trust funds will be used to fund other spending initiatives or tax relief.—A Blueprint for New Beginnings: A Responsible Budget for America's Priorities, Office of Management and Budget, February 28, 2001, Page 11

To make sure the retirement savings of America's seniors are not diverted into any other program, my budget protects all \$2.6 trillion of the Social Security surplus for Social Security and for Social Security alone.—President Bush, Address to Joint Session of Congress, February 27, 2001

We are going to wall off Social Security trust funds and Medicare trust funds . . . And consequently, we pay down the public debt when we do that. So we are going to continue to do that. That's in the parameters of our budget and we are not going to dip into that at all.—House Speaker Dennis Hastert, Quoted in BNA's Daily Tax Report, March 2, 2001

We must understand that it is inviolate to intrude against either Social Security or Medicare and if that means forgoing or, as it were, paying for tax cuts, then we'll do that.—House Majority Leader Richard Armey, BNA's Daily Tax Report, July 11, 2001

The lock-boxes brought to the floor may have been gimmicks; but Democrats thought we had consensus on the core concept. We thought we had agreement that the trust fund surpluses would be saved, not borrowed and spent, to buy back Treasury debt held by the public. That could add more than \$3 trillion to national savings, boost the economy, and in time retire virtually all the Treasury's debt. Then, in 2025, when the Social Security trustees needed to begin liquidating bonds to pay benefits, the Treasury would be in far stronger shape to redeem those obligations.

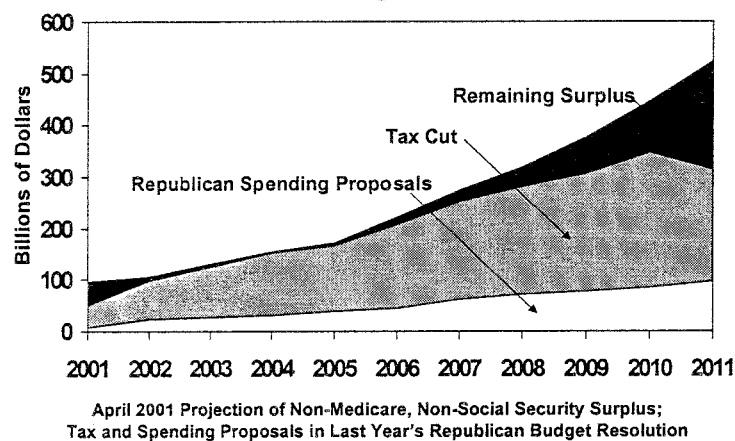
Before the last budget year was over we would find this principle honored in the breach.

Our arguments and admonitions went unheeded last year. The Republicans passed their budget, and left no margin for error as the chart below shows. For the next seven years, they spent virtually the entire non-Social Security, non-Medicare surplus; if anything at all were to go wrong, the nation's entire economic strategy would be ruined.

So, when the forecasting errors began to show up, when the economy began to drop below OMB's projections, the unified surplus went down too, as this table below shows. According to the August

estimate, before the influences of the terrorist attack in September, the surplus went down by \$2.5 trillion, or 45 percent.

### Last Year's Republican Budget Left No Margin for Error



This year, if Republicans pass the President's budget, by OMB's accounting, the surplus will be slashed all the way down to \$661 billion, just 12 percent of what was projected last year. Instead of \$5.6 trillion, the unified surplus will be \$0.6 trillion.

### The 10-Year Unified Budget Surplus

Trillions of Dollars

	2002-2011	2003-2012
April 2001	5.637	N.A.
August 2001	3.113	N.A.
February 2002	0.661	1.002

Source: Office of Management and Budget

And that surplus, as the next table shows, is only what is left over of the surplus in Social Security. By OMB's own reckoning, if Republicans vote to pass the President's budget this year, they will be voting to spend all \$560 billion of the Medicare surplus and \$1.650 trillion dollars of the Social Security surplus, from 2002 through 2011 creating a \$1.650 trillion on-budget deficit.

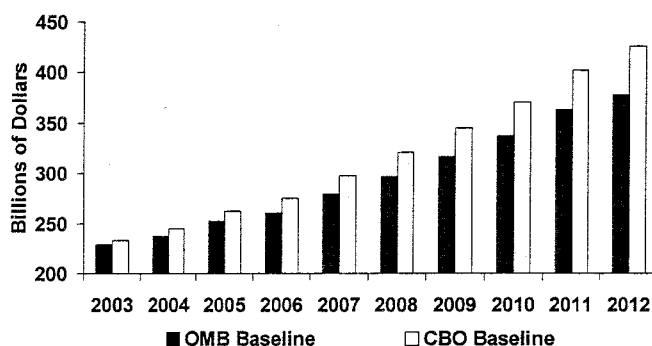
**The 10-Year  
Non-Social Security Surplus**  
Trillions of Dollars

	2002-2011	2003-2012
April 2001	3.046	N.A.
August 2001	0.575	N.A.
February 2002	-1.650	-1.464

Source: Office of Management and Budget

That dire calculation assumes that OMB's estimate of Medicare spending is correct, even though it is \$226 billion less than CBO estimates the cost to Medicare will be.

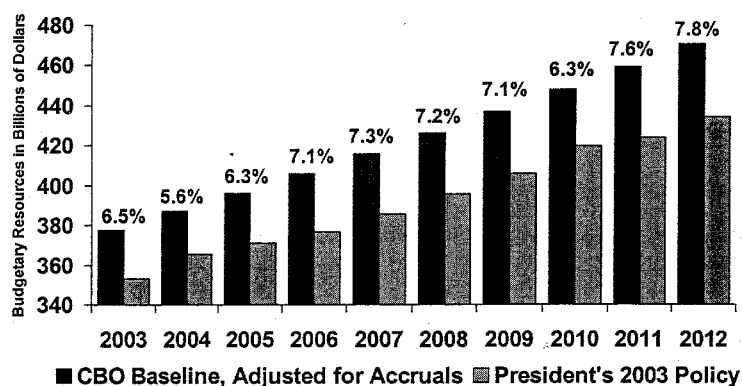
## President's Budget Shorts Medicare \$226 Billion



OMB's calculation also assumes that Republicans can hold non-defense discretionary spending for ten years \$215 billion below what CBO estimates is needed to maintain the level of current services.

## Discretionary Spending The President's Budget vs. the CBO Baseline

Excludes Defense, International, and Non-Defense Homeland Security



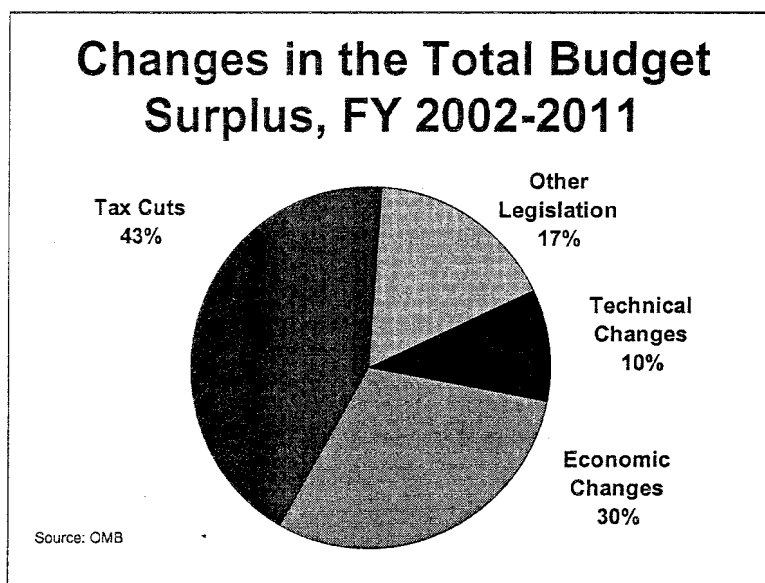
That calculation further assumes that the nation can make it through the next ten years without major adjustments to the indi-

vidual Alternative Minimum Tax, even though the number of tax filers affected will increase twenty-fold, from fewer than 2 million to 39 million. The President's budget overlooks the AMT altogether. The cost of correcting this problem will be at least \$450 billion.

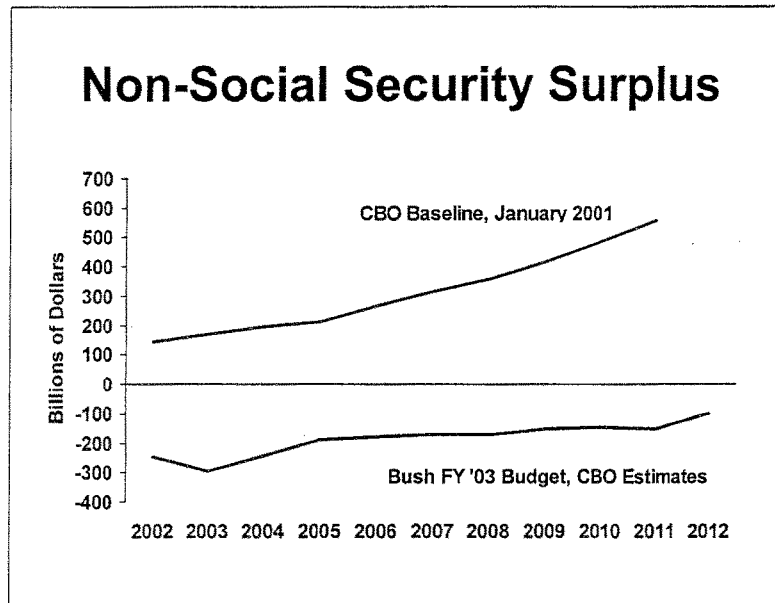
Any developments could cause the Republican budget to consume the entire Social Security surplus, in addition to the surplus in Medicare.

So much for the lock box. And sadly, so much for our plan to save the Social Security surplus. The Republican budget dashes any hope that we can carry it out.

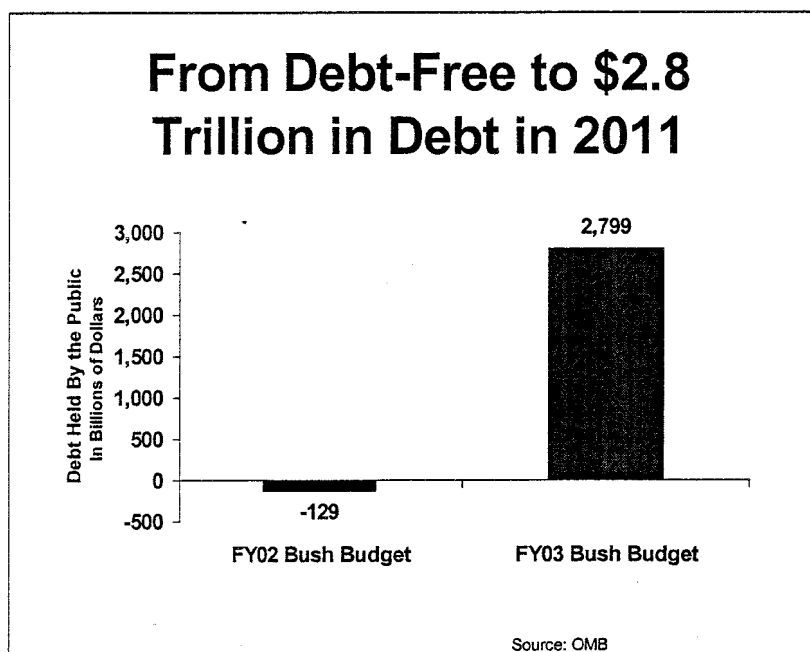
Republicans can seek absolution by blaming the economy and the war, but this next pie chart, using OMB numbers, shows that the largest share of the blame (43 percent), stems from the tax cuts they enacted.



Last year, the budget, excluding Social Security, was totally in the black. Every year for ten years, CBO projected an on-budget surplus, as the following chart shows. The two Republican budgets, this year and last, cause that bottom line to do an about-face. Now, CBO says that every year for ten years, there will be an on-budget deficit.



As of last year, according to CBO, all the Treasury debt held by the public could be paid, or payment provided for, by 2008. But under today's Republican budget, between 2001 and 2004, Treasury debt held by the public actually goes up. And by 2008, when the baby boomers start to retire, the government will owe more debt to the public (\$3.479 trillion) that it owes today. (CBO Analysis of President's Budget, Page 18, Table 2.)



So much for paying down the public debt.

Facing such a reversal, one would hope that Republicans would be scrambling for solutions. But rather than face the problem, they avoid it. For the first time in years, rather than adopting the baseline that is consistent with the Budget Act and with past practice, Republicans pick the projections that favor Republican policies most: the very same OMB estimates, derived by political appointees, that Congressional Republicans protested by shutting down the government just seven short years ago.

For the first time in years, Republicans also offer only a five-year budget instead of a ten-year budget. Presumably, their budget yields no consequences that they want to acknowledge in the second five years, and so they choose not to show those years at all. Republicans propose new programs, like drug coverage under Medicare, but because they present only a five-year budget, we have no way of telling if those initiatives are realistically funded. By not running their budget past 2007, Republicans avoid deciding whether the tax cut sunset in 2010 is to be repealed in their Budget Resolution. But the very day of the markup of the resolution, while Republicans were telling us that their proposal was silent on extending the tax cuts, their Speaker was announcing a new bill to do just that. This choice has a big impact on revenues, almost \$400 billion. Without knowing out-year revenues, the Congress is at a loss to know if near-term tax cuts—extenders, for example—can be accommodated in this budget.

This budget does not recover in five years. As for what happens in ten years, we are left to infer. Either Republicans have no ten-year plan of recovery, which is bad or they have a plan but it won't



stand scrutiny, which is worse. In any event, there are no targets, no objectives, and no strategies that we can find in this budget. It takes the track all the President's witnesses took at Budget Committee hearings this year, which is to admit that there is no work-out strategy, except a hope for more economic growth than the forecast already assumes.

This is not the path that led to eight straight years of better bottom lines. And this is not the path that leads to debt reduction and Social Security solvency and the furtherance of priorities that Democrats hold high, like education. Republicans went the wrong way at the fork last year. Before this year is out, we hope in some way to get the budget back on path. But this resolution takes us in the opposite direction.

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